

2009 review

Our focus in 2009 has been on running a sustainable business, at a lower level of sales, by taking bold action to ensure our operations and activities continue to reflect and respond to the needs of our clients. To do this we focused on three key areas – lowering production levels in line with client demand, cost savings and operating efficiencies, and stimulation of consumer demand.

49%

Reduction in carats produced 2009 vs 2008

US\$0.9bn

Cost reductions 2009

Operating environment

In line with others in the luxury sector, the diamond industry was severely impacted in 2009 by the global recession. The impact of high stock levels throughout the diamond pipeline, constricted liquidity in the cutting centres, and lower consumer demand led to lower demand for rough diamonds from DTC Sightholders. The industry was affected most acutely in the first quarter and, as the year progressed, sentiment improved which allowed the DTC to increase its prices and sales volumes throughout the second half of the year.

At the retail level, the 2009 holiday period took place amidst continued economic weakness, with American consumers continuing to spend less than previous years. The luxury goods and high-end jewellery sector appeared to perform slightly above expectations, outperforming other categories. In the emerging markets of India and China, demand for diamond jewellery remained positive in the face of a weaker economic climate.

Our response to the downturn

In 2009, and in response to the global recession, De Beers focused on three key areas to ensure we continue to run a sustainable business – lowering production levels in line with client demand, cost savings and operating efficiencies, and stimulation of consumer demand.

Key 2009 projects

At the end of 2009, Debswana announced a major expansion project at Jwaneng, the world's flagship diamond mine in Botswana. This project, also known as Cut-8, will ensure profitable and continuous production at Jwaneng until at least 2025. Debswana will invest \$500 million in capital expenditure, while the estimated project investment is likely to total \$3 billion over the next 15 years. At its peak, the project will create more than 1,000 jobs and will create access to a further 95 million carats, which could be worth in excess of \$15 billion over the life of the mine.



Conveyor and crusher in Snap Lake process plant



Namaqualand

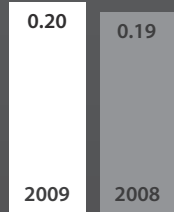


Elizabeth Bay

Key performance indicators

Full year

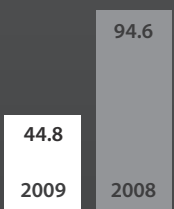
LTIFR*



0.20

2008: 0.19

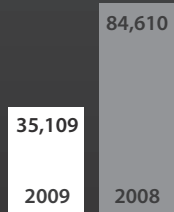
Exploration expenditure (US\$m)



\$44.8m

2008: \$94.6m

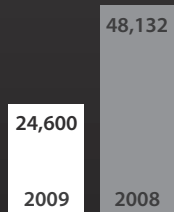
Tonnes treated (000s)



35,109

2008: 84,610

Carats produced (000s)



24,600

2008: 48,132

* long-term injury frequency rate



Outlook

De Beers will continue to take a cautious approach to production, sales and cost management in 2010, whilst anticipating a steady recovery of the industry.

As the world recovers from recession, the global market for polished diamonds has stabilised, and is recovering from the effects of the economic crisis. De Beers is encouraged by initial stronger levels of demand than it witnessed at the same stage in 2009, and history has shown that demand generally rebounds strongly in post-recessionary periods as manufacturers and retailers look to re-build their inventories. De Beers remains cautious as global consumer demand for luxury goods has not yet fully recovered to pre-crisis levels, and will therefore continue to take a prudent approach to production in 2010. Whilst production is planned to increase over 2009 levels, it is not expected to return to historic highs for the foreseeable future. De Beers will continue to focus on cost and capital management, further increasing efficiencies and reducing costs where possible.

China and India are the two priority growth markets for diamonds and are expected to collectively account for one third of global demand by the middle of the decade. De Beers launched the Forevermark™ programme, a proprietary diamond brand, in both the Chinese and Indian markets to support our Sightholder partners in driving demand for diamonds. In the US, consumers were particularly hard hit by the economic downturn. However, our Q4 'Everlon' marketing initiative was received well and trends indicate the downturn has bottomed out with growth over the Christmas season providing encouragement for the world's largest diamond consumer market.

Our response to the downturn

1. Producing in line with client demand

49% reduction in carats recovered in 2009

At the beginning of 2009, and in response to reduced demand from DTC Sightholders, De Beers reduced its production across its portfolio of mines. Through production holidays and extended essential maintenance shifts, output was significantly reduced in the first quarter resulting in a 91% reduction in carats produced

compared to 2008. As Sightholder demand increased gradually in the second quarter, which continued throughout 2009, De Beers increased production to 18 million carats in the second half of the year (H2 2008: 24 million carats), an increase of 173% compared with the first half, and a reduction of 49% year on year.

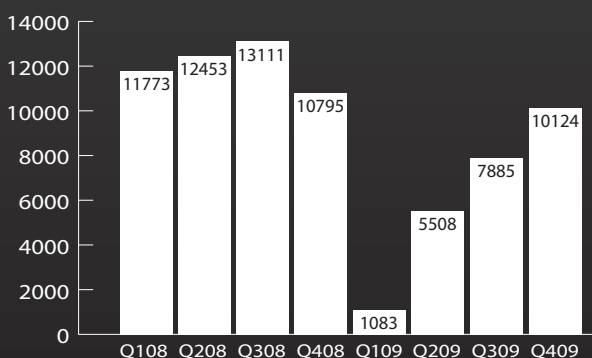
2. Driving cost reduction and creating operating efficiencies

US\$0.9bn in savings in 2009

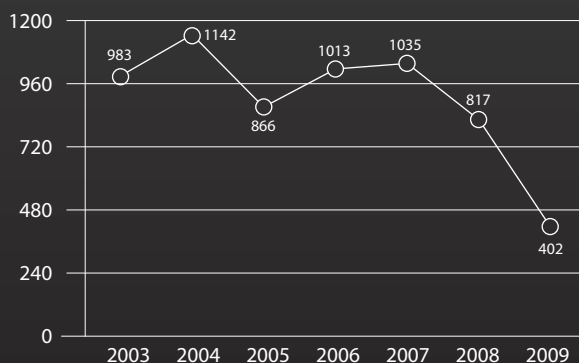
De Beers tackled costs aggressively in 2009, achieving a US\$0.9 billion reduction in production and operating costs. Going forward, reduced expenditure will position the Group to withstand the economic downturn and, post recession, emerge cash generative creating the conditions necessary for recovery. In addition to this,

we identified efficiencies which have enabled a reduction in the global workforce of 23%. These efficiencies have been achieved through a de-layering of the organisation, and a reduction in the activities of the corporate centres. It is anticipated that the majority of the efficiencies will be permanent, even as the industry trends upward.

Production volumes 2008-2009 (carats 000s)



Annual operating costs 2003-2009 (US\$m)



3. Maximising demand for diamonds

Everlon Jewellery range launched in the US in over 4700 stores

In 2009, De Beers developed its latest 'Big Idea' concept, creating a new jewellery range, the 'Everlon Diamond Knot Collection', along with an integrated marketing campaign. For the first time, a set of participating DTC Sightholders and leading retailers are cooperatively funding the programme. Participating retailers have access to De Beers inspired brand concepts and materials which are IP protected, as well as use of, and linkage with, the famed and award-winning 'a diamond is forever' slogan. The model consists of an alluring collection of new diamond jewellery designs, supported by compelling messaging with the aim of attracting consumers' attention and drawing them into participating stores. The 'Everlon Diamond Knot' itself, inspired by the 'Hercules Knot', symbolises the impenetrable strength of love which joins two individuals.

Since 2001, 70% of the incremental growth in the US retail diamond jewellery market has come from launching previous 'Big Ideas', such as 'Trilogy' and 'Journey'.

As consumer desire for diamonds remains strong, De Beers is investing in initiatives to help turn this sentiment into sales. In the Far East, De Beers' proprietary diamond brand 'Forevermark' has continued to expand in China, Hong Kong, Japan and Macau, with the result that the brand is now available in 245 stores across Asia.

